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SUBJECT: UZBEKISTAN: REMITTANCES DOWN, BUT NOT AS MUCH AS EXPECTED

REF: 08 Tashkent 951; 09 Tashkent 67; 09 Tashkent 441
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11. (SBU) SUMMARY. Initial estimates from Western Union and other sources indicate that the picture surrounding remittances to Uzbekistan from citizens working abroad in 2009 remains mixed. Official remittances to Uzbekistan (e.g., remittances processed through the formal banking system) weakened from their 2008 levels, but the drop is not as catastrophic as predicted earlier in the year. Anecdotal evidence, however, suggests that informal remittances (e.g., remittances processed outside formal channels) have dropped more significantly, resulting in increased hardships for poorer Uzbek families, particular in rural areas. END SUMMARY.

REMITTANCES - IMPORTANT SOURCE OF EXTERNAL FINANCING

12. (SBU) Remittances are an important source of external financing for the Uzbek economy, accounting for more than 10 percent of national Gross Domestic Product (GDP). (See refs A, B, C and D) Over the past 10 years, Uzbekistan has benefited significantly from the boom in the Kazakh and Russian economies, especially in the construction industry, through remittances from its labor migrants. Estimates of the number of Uzbek migrant workers abroad vary widely from 500,000 to five million, although most observers believe the figure is likely around 2 million. As the financial crisis pressures the Russian and Kazakh markets, Uzbek migrants are now losing their jobs or finding their salaries reduced. Some workers wish to return home but discover they do not have the money to travel. One bright spot is the continuing construction of the 2014 Olympic complex in Sochi, Russia, which continues to employ a large number of CIS migrant workers. (Note: In the wake of the crisis, Kazakhstan and Russia cut their immigration quotas by half by the end of 2008. Contrary to this, reports from both countries of destination claim that Uzbek migrant workers can still find work, because they are often willing to work for less money than the locals, and they also work informally.)

FORMAL REMITTANCES BETTER-THAN-EXPECTED

13. (SBU) Concrete figures on the value of remittances from migrant workers are difficult to pinpoint as this number is not

released in Uzbekistan. The period from 2004 to 2007 showed steady growth in remittances to Uzbekistan with 2006 and 2007 remittances reaching USD 1.6 and 1.9 billion, respectively (Asian Development Bank estimates). 2008 saw a drastic uptick in remittances both world-wide and to Uzbekistan, in part due to a capital amnesty period enacted by the GOU to bolster confidence in the banking system and to grow domestic deposits. New estimates from the Central Bank of Russia and Western Union indicate remittances to Uzbekistan will shrink between 20-40 percent in value for the 12 month period ending December 2009.

¶4. (SBU) According to the Central Bank of Russia, money remittances from Russia to Uzbekistan approximated USD 703 million for the nine month period ending September 2009 - 40 percent less than the prior year. Uzbekistan was the largest recipient of remittances in the CIS from Russia, accounting for 23 percent of all remittances from the country, followed by Tajikistan with USD 573 million (down from USD 925 million for the same period in 2008). Remittances to Uzbekistan have a seasonal character, with peak money transfer taking place between March-July (the most active parts of the agricultural and construction seasons) and December (when workers return home for the winter); thus, fourth quarter remittances are expected push this nine-month figure number higher. Exact figures from the Central Bank of Russia (including average dollar amount, number of transactions, etc.) will be made available in late February 2010.

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¶5. (SBU) Western Union, the largest money transfer agent in the Uzbek market, estimates that, based on numbers seen to date, its value of remittances will be down between 20-30 percent for all of 2009 (e.g., 12 month period). Western Union Country Director Mr. Djalil Haydarov told Embassy representatives that that the average dollar value of transactions processed by his company fell from USD 550 per transaction in 2008 to only USD 385 per transaction this year. Mr. Haydarov attributes the drop to both a decrease in overall employment abroad, real wages, and the devaluation of the Russian ruble over the last twelve months. (Note: The ruble lost 25 percent of its value against the US dollar in the first half of 2009 compared to its average value in the same period the previous year). Mr. Haydarov noted that Western Union recently decreased the fee for a money transfer by 35 percent to encourage senders. This dollar value decline places increasing pressure on Uzbeks, especially retired individuals, who rely upon remittances from younger family members to meet monthly expenses. In particular, the Uzbek government abolished some pension allowances for teachers and certain classes of nurses in December 2009, and this segment will likely face increased economic hardships this winter. In addition, the Tashkent utilities authorities recently announced a 20 percent increase for citizens' hot and cold water and central heating costs.

INFORMAL REMITTANCES DROP MORE SIGNIFICANTLY

¶6. (SBU) More than half of all remittances go through illegal or undocumented channels, such as "hawala" brokers or family members transporting cash. Mr. Haydarov estimates that formal transfer agents initiated about 300,000 transactions year to date to Uzbekistan. Based upon an estimated migrant workforce of almost 2 million, it is clear that significant sums of money are unaccounted for in official statistics. It is likely that the informal remittances dropped as much as formal ones.

¶7. (SBU) The Embassy has received reports from credible human rights activists that the situation in the regions is more dire than the official numbers indicate. One activist from Khorezm reported that remittances in that area have dropped almost 75 percent in value (based on banking deposits). These sources also

report that many Uzbek migrants returning from abroad have found little work and often have trouble reintegrating to their families after their prolonged absence.

WESTERN UNION - Increasing Competition from Russian Banks

¶8. (SBU) Western Union currently controls approximately 25 percent of the Uzbek money transfer market, down slightly from around 30 percent of market share last year. Mr. Haydarov believes that this decline in market share is attributable partially to increased competition from Russian banks, which recently have expanded operations in the Uzbek market. As of the end of 2008, Western Union estimates only eight Russian banks offered money transfer services to Uzbekistan - now the number is fifteen. Mr. Haydarov declined to name the competitors but mentioned that Western Union has struggled against Russian competitors, which sometimes have "unsporting" advantages operating in Russia.

¶9. (SBU) Despite increasing competition, Mr. Haydarov is bullish about the company's prospects in the region. Western Union recently launched a targeted marketing campaign - the "Leaving Home Initiative" at the "Vokzal" train station in Tashkent and the Tashkent International Airport. Twenty Western Union promoters routinely distribute glossy, printer brochures to outbound travelers headed to Russia at these locations. The brochures contain information about Western Union's money transfer services, telephone and addresses for Western Union locations in Russia, and

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a map of the Moscow metro station. There is also a campaign targeting Uzbek workers travelling to South Korea, which is a growing destination country for individuals seeking seasonal employment.

Comment

¶10. (SBU) The year has undoubtedly been difficult for Central Asian workers abroad and their dependents at home. With jobs more scarce and real dollar wages declining, many Uzbeks who already straddle the poverty line may find it difficult to make ends meet. Despite officials denials, the return of migrant laborers to their homeland has in fact placed additional strains on the country's social infrastructure. However, despite dire predictions early last year, social upheaval is not evident.

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